

VZCZCXYZ0005
PP RUEHWEB

DE RUEHUL #0431 0780753
ZNR UUUUU ZZH
P 190753Z MAR 09
FM AMEMBASSY SEOUL
TO SECSTATE WASHDC PRIORITY 3657

UNCLAS SEOUL 000431

SIPDIS

STATE FOR EEB/TPP/MTAA - NAFZIGER
STATE PASS TO USTR FOR MALMROSE

E.O. 12958: N/A
TAGS: [ECON](#) [EFIN](#) [ETRD](#) [PREL](#) [WTO](#) [KS](#)
SUBJECT: AUTOMOBILE SUBSIDY PROGRAMS RESPONSE

REF: STATE 004753

¶1. (U) The ROKG does not currently have a plan of targeted financial support for the auto industry. In order to sustain the auto market in the face of shrinking domestic sales (which fell by 24 percent in December 2008 compared to December a year earlier), the ROKG announced on January 6, 2009 it would temporarily reduce by 30 percent the special excise tax (also known as the individual consumption tax) on automobiles. This tax reduction is scheduled to be valid through June 2009. Additional tax reductions and exemptions for the purchase of hybrid vehicles will go into effect within this year; they are part of President Lee Myung-bak's "green growth" policies (and apply to the sale of all hybrid vehicles irrespective place of manufacture).

¶2. (U) In February, Ssangyong Motors, Korea's fifth largest auto maker, declared bankruptcy when its majority shareholder, Shanghai Automotive Industry Corporation (SAIC), declined to provide additional financing to the firm. No government support was provided to the firm to help it avoid bankruptcy; Ssangyong is currently restructuring under the management of court-appointed administrators.

¶3. (U) The ROKG has announced it is considering submission of a supplemental budget request to the National Assembly within the coming month. There is speculation that this package may contain measures to aid the sectors most affected by the recession, including possibly autos (as well as shipbuilding and construction).

¶4. (U) None of the recession response measures currently in place contain direct financial subsidies to carmakers, discriminate between domestic and foreign automakers, or contain provisions linked to export or local content requirements. No details are available about the likely form of any support to the auto industry in the supplemental budget, if any; most informed speculation is that it will expand and extend the current tax cuts on auto sales (irrespective of place of manufacture).

¶5. (U) In addition to the steps outlined above, Korean automakers and auto parts makers may benefit from broader ROKG programs that cut across industrial sectors. Since the credit crunch began last fall, ROKG stimulus programs focused on increasing the flow of credit and helping small and medium-sized enterprises (SMEs) get through the economic crisis may be providing support to smaller suppliers in the automotive industry. The Bank of Korea, the Financial Supervisory Service, and the Ministry of Knowledge Economy have worked with local banks and automakers to provide liquidity to the financial institutions that cover auto loans to consumers.

STEPHENS